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STATE FOR WHA/CEN//JASON MACK

PASS TO EXIM//MICHELE WILKINS AND MICHELLE D. MILLER

PASS TO USTR

PASS TO DEPARTMENT OF ENERGY

TREASURY FOR WHA//FRANCISCO PARODI AND JEFFREY LEVINE

E.O. 12958: N/A
TAGS: ECON EFIN EAID PGOV PREL SOCI BH
SUBJECT: BELIZE: PARLIAMENT APPROVES BROV LOAN AND "SUPER BOND" AS
DEBT AS DEBT RESTRUCTURING CONTINUES

REF: (A) BELMOPAN 44

(B) BELMOPAN 40

¶1. Summary: The House of Representatives and the Senate met in emergency sessions on December 8 and 11, respectively, and approved a second USD 25 million loan from the Bolivarian Republic of Venezuela (BROV) (ref A) and the issuance of new bonds equivalent to USD 565 million. These two financiing schemes form part of the government's debt restructuring plan, originally announced on August
¶2. While members of the opposition United Democratic Party (UDP) in the House supported the Venezuelan loan, they opposed the bond resolution. In the Senate, however, the opposition, joined by senators representing civil society, the Council of Churches, and the business community, opposed both resolutions. This resulted in a tie, requiring Senate President Philip Zuniga to cast the deciding vote. End Summary.

Background

¶2. On August 2, after a very long time of not admitting that the country was facing serious financial difficulties, the government finally announced that it was seeking the cooperation of its creditors in a program designed to place the Belizean public sector debt on a sustainable footing. In short, the government admitted, through an official memorandum to "all holders of external debt instruments of Belize and Belizean public sector entities," that it could no longer continue to service its foreign debt. The government then proceeded to hire the financial consultancy firm of Houlihan, Lokey, Howard and Zukin to come up with a viable debt restructuring plan that it could sell to its creditors. The two financial resolutions that were tabled in the House and Senate form part of government's debt restructuring plan.

The BROV Loan

¶3. The administration of Prime Minister and Minister of Finance Said Musa hurriedly convened a House of Representatives meeting on December 8 and a Senate meeting on December 11 to approve two

financial instruments that would assist the government with the debt restructuring program it announced on August 2. The first instrument deals with a USD 25 million concessionary loan from the BROV. The second concerns the issuance of new bonds equivalent to USD 565 million to be used to exchange most categories of the country's outstanding external commercial debt.

¶4. According to Musa, who presented both resolutions to the House, this BROV loan (like the first one for the same amount that was approved by the House on June 12) was offered to the government under a bilateral program of economic cooperation and development between the two countries.

¶5. The terms and conditions of the loan are:

- Loan principal amount: USD 25 million;

- Disbursement: USD 25 million upon execution and registration of an appropriate Promissory Note;

- Loan term: 15 years;

- Grace period: 2 years;

- Repayment period: in 26 equal semi-annual installments commencing December 2008;

- Purpose: to support the Government of Belize's external debt management program;

- Rate of interest: six month LIBOR rate without any additional margin.

The Bond Exchange Offer

¶6. In presenting the second resolution, Musa noted that his administration consulted extensively for four months with the affected creditors before asking the House to approve the exchange offer. Comment: The four-month consultation period that Musa referred to commenced on August 2, when the government announced its decision "to seek the cooperation of the country's private sector creditors in a rearrangement of Belize's approximately USD 960 million external debt stocks." End Comment.

¶7. Musa explained the terms and conditions of the bond:

- Maximum transaction size: USD 565 million;

- Rate of Interest: the new bonds will accrue interest, payable semiannually in arrears at the interest rates per year as set forth below:

Years after issuance	Interest Rate (per annum)
Years 1-3	4.25 percent
Years 4-5	6.00 percent
Years 6-22	8.50 percent

- Issue Date: the U.S. dollar bonds are expected to be issued by March 31, 2007;

- Maturity date: the maturity date is expected to be 22 years from the date of issuance;

- Interest payment dates: the U.S. dollar bonds will pay interest semi-annually. The first interest payment date will be approximately six months after the date of issuance;

- Status of the U.S. dollar bonds: the U.S. dollar bonds will be general, direct, unconditional unsubordinated and unsecured obligations of Belize and will rank at least equally among

themselves and with all of Belize's existing and future unsecured and unsubordinated external indebtedness;

- Use of the U.S. dollar bonds: the U.S. dollar bonds will be given in exchange for eligible claims held by certain existing security holders.

¶8. Mark Espat, Minister of National Development and Investment, and the government's lead negotiator in its debt restructuring discussions, explained that his team of negotiators had met with creditors holding close to 80 percent of Belize's private sector debt and that one of the creditors' most "nagging" issues was the right coupon structure of the new bond. Espat added that his team agreed to a step-up approach after realizing that the government would be able to make fairly early coupon payments.

The Opposition: Belize a Vagabond Nation

¶9. Opposition leader Dean Barrow, as well as the other seven opposition members, supported the BROV loan, but opposed the bond resolution. Barrow retorted that the government's bond exchange offer amounted to a default and that the reason the government has been "forced" to go this way is because of the level of "corruption" that has come to characterize the Musa administration since 1998. He reasoned that had his party supported the resolution, Belizeans would have taken it to mean that the UDP was sanctioning the government's "legacy of corruption." For him, from now on Belizeans would be living in "infamy," because the country will be known as an "economically failed state ... a vagabond nation" for its inability to pay its creditors. Musa argued, however, that the new bond offer is in keeping with the government's fiscal stabilization and debt restructuring program.

Strong Opposition at the Senate

¶10. Although the Senate approved the BROV loan and the bond exchange offer, it was certainly not as smooth sailing for the government as it was three days earlier in the House. In fact, Monday's session was one of the few times when the Senate President has ever had to break a tie. (Note: All six government senators voted in favor of the resolution, while the three opposition senators were joined by the three non-government senators representing the Council of Churches, civil society, and the business sector to vote against. End Note.)

¶11. In opposing the bond resolution, Senator Godwin Hulse, representing the business community, lamented the government's decision to call a Senate meeting on very short notice and its failure to provide the non-government senators information that could have persuaded them to support the resolution. Hulse explained that in the absence of such information he had to look elsewhere, particularly to the Central Bank of Belize (CBB). According to him, he compared three debt repayment scenarios from the CBB and none of the payment totals matched with the bond exchange offer of USD 565 million.

Analysis and Comments

¶11. The Government of Belize's October 2006 revised medium-term projections and indicative debt restructuring scenarios reveal that the country's projected foreign debt obligation for 2007 is USD 203.4 million (six million less than what was reported in Ref B). This figure dips to USD 143.3 million in 2008, climbs again to USD 155.7 million in 2009, continues climbing to 194.1 million in 2010, dips once more to USD 163.9 million in 2011, and then skyrockets to USD 419.6 million in 2012, resulting in an estimated financing gap of USD 321 million.

¶12. With these massive debt payment obligations staring at the country, and its bail-out options rapidly disappearing, it is easy to see why the Musa administration hurriedly went to the House and the Senate to seek approval for what the local media has dubbed the "super bond" -- equivalent to USD 565 million. Bear Stearns has publicly stated that it considers favorably the terms and conditions of this "super bond" and would encourage its clients to accept the swap. However, not all underwriters are following Bear Stearns lead. Zurich Emerging Markets Solutions has rejected the government's latest offer as unacceptable and seems unwilling to compromise under the existing terms and conditions.

¶13. Cabinet ministers have repeatedly stated that the government will try hard to successfully conclude this exchange offer by the first week of February 2007. An unsuccessful offer, therefore, would mean that Musa would have to present the new budget for fiscal year 2007/2008 to the House of Representatives (before the end of next March) without any provisions for savings that the failed exchange offer would have potentially realized. At a time when the Musa administration's popularity is at its lowest, with polls forecasting his party's defeat at the next general elections, it will be interesting to see what other options the administration will propose in 2007 to service Belize's seemingly unsustainable external debt. How the government will be able to protect the 2-to-1 exchange rate peg with depleted foreign exchange reserves is another interesting question. End Analysis and Comments.

DIETER